

COMMITTEE AGENDA: FEBRUARY 16, 2023

ITEM: (d) I

FILE: CC-23-019

ATTACHMENT A

SECOND QUARTER FINANCIAL REPORT FISCAL YEAR 2022-2023

**Public Safety, Finance and
Strategic Support Committee**

**Prepared by the Finance Department
February 1, 2023**

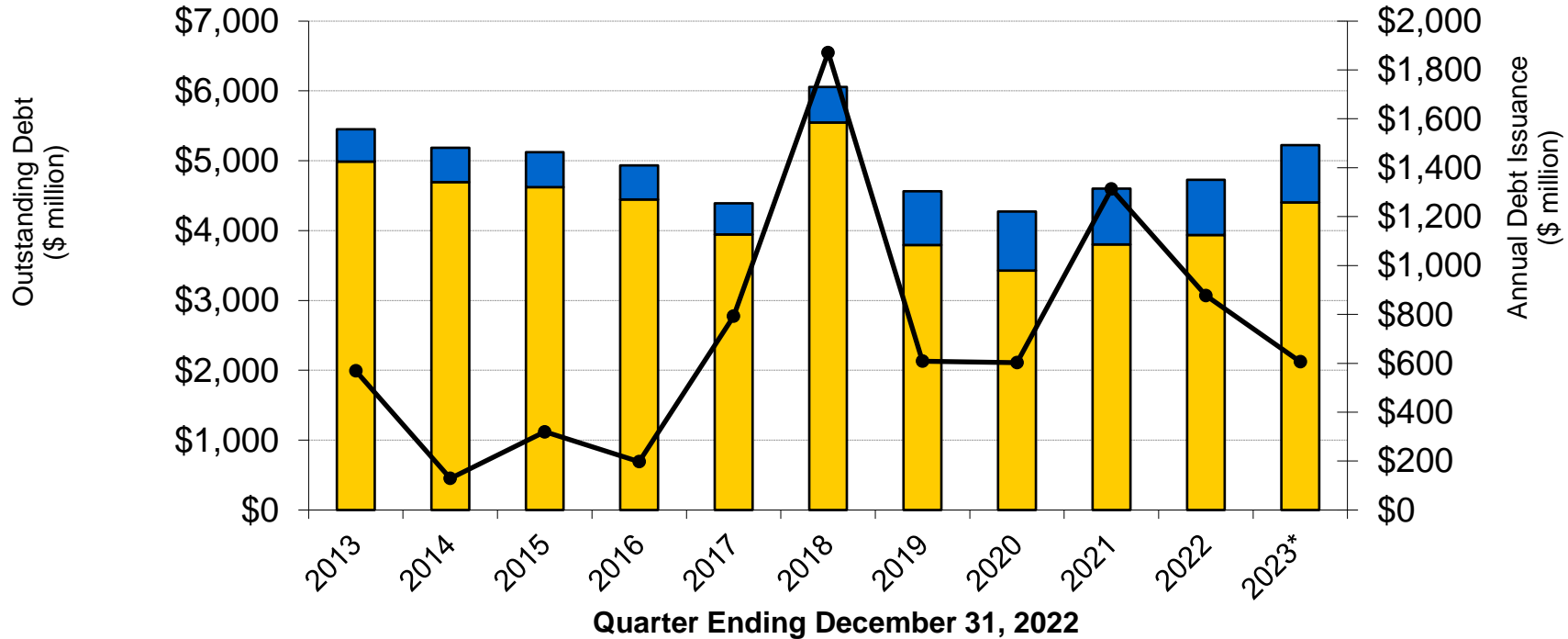


SECOND QUARTER DEBT MANAGEMENT REPORT FISCAL YEAR 2022-2023



OUTSTANDING DEBT ISSUED (CITY AND ALL AGENCIES)

Outstanding Debt as of December 31, 2022: \$5.22 Billion
 FY 2022-23 Year to Date Debt Issuance: \$606.5 Million



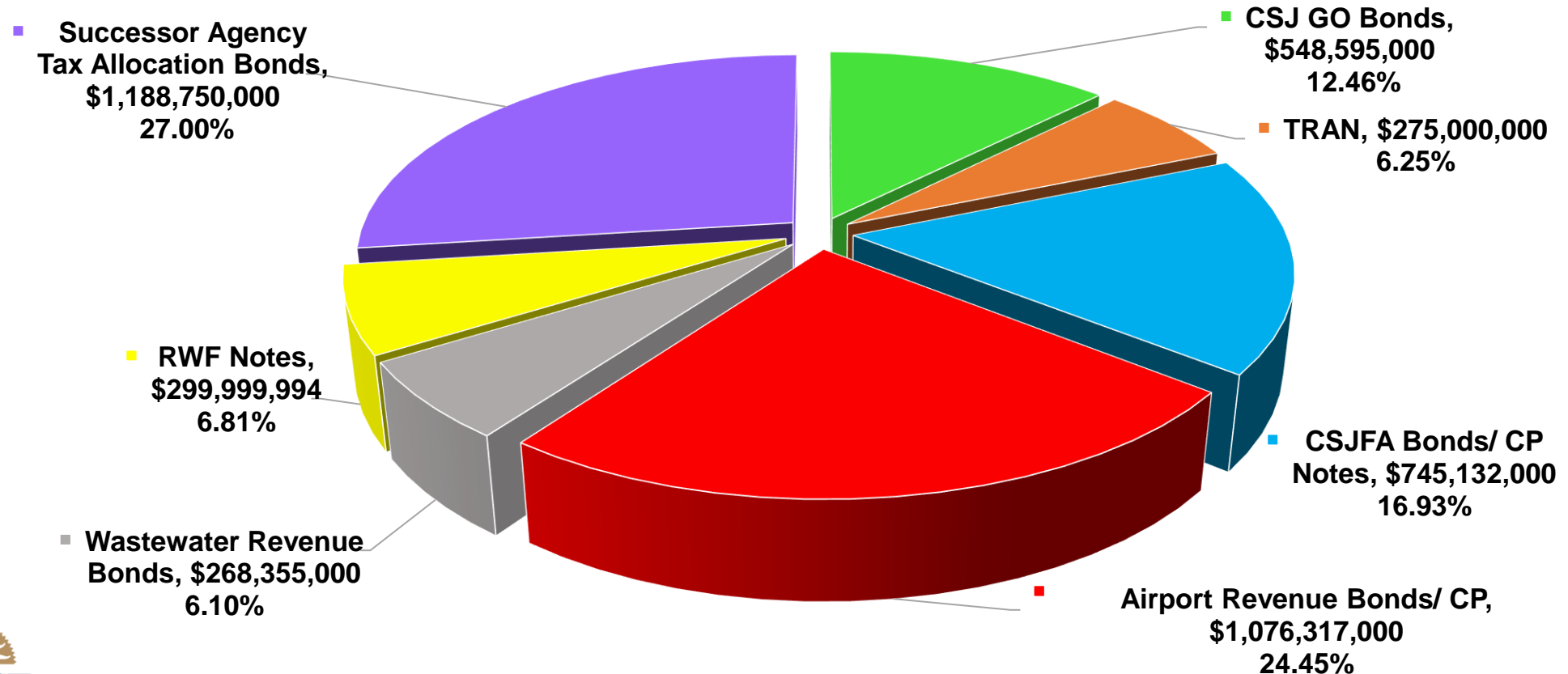
■ City and Related Entity Debt Outstanding
 ■ Conduit Debt Outstanding
 ● Annual Debt Issuance

*YTD Debt Issuance



DIRECT OUTSTANDING DEBT (CITY AND ALL AGENCIES)

Outstanding Debt as of December 31, 2022: \$4.40 Billion
(Excluding Multifamily Housing Revenue Bonds)



DEBT ISSUANCE ACTIVITIES

DURING SECOND QUARTER (OCTOBER – DECEMBER 2022)

- Debt Issuance
 - CSJFA Wastewater Revenue Bonds, Series 2022B (Green Bonds – Climate Bond Certified) – \$268.36 million, December 2022
 - Regional Wastewater Facility Revenue Tax-Exempt Notes –
 - Issued \$63.1 million in October 2022
 - Reached maximum capacity of \$300 million Revolving Line of Credit
 - Notes will be refunded in full with 2022B bond proceeds in March 2023



SELECTED DEBT MANAGEMENT ACTIVITIES DURING SECOND QUARTER (OCTOBER – DECEMBER 2022)

- Request for Proposal
 - SJCE Revolving Credit Facility (\$250 million)
- Reporting
 - Annual Continuing Disclosure and Compliance Reporting
 - 2022 Comprehensive Annual Debt Report (CADR)



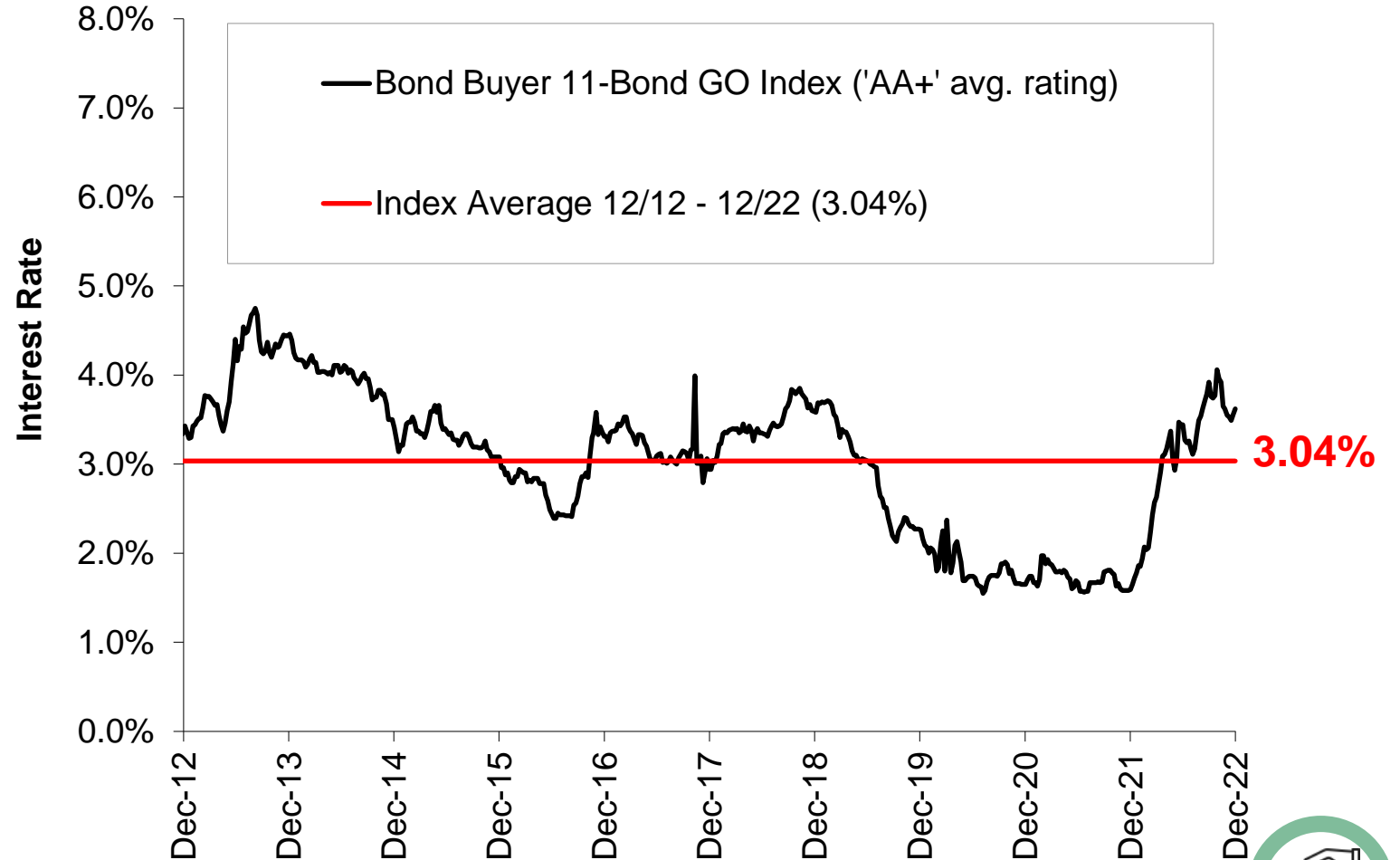
UPCOMING DEBT ISSUANCE AND MANAGEMENT THROUGH MARCH 31, 2023

- Debt Management
 - Repayment of \$300 million of Subordinate Wastewater Revenue Notes, Series A with proceeds of CSJFA Wastewater Revenue Bonds, Series 2022B
 - Redemption of \$137.5 million of Tax Revenue Anticipation Notes
- Reporting
 - CDIAC - Annual Debt Transparency Reporting (ADTR)



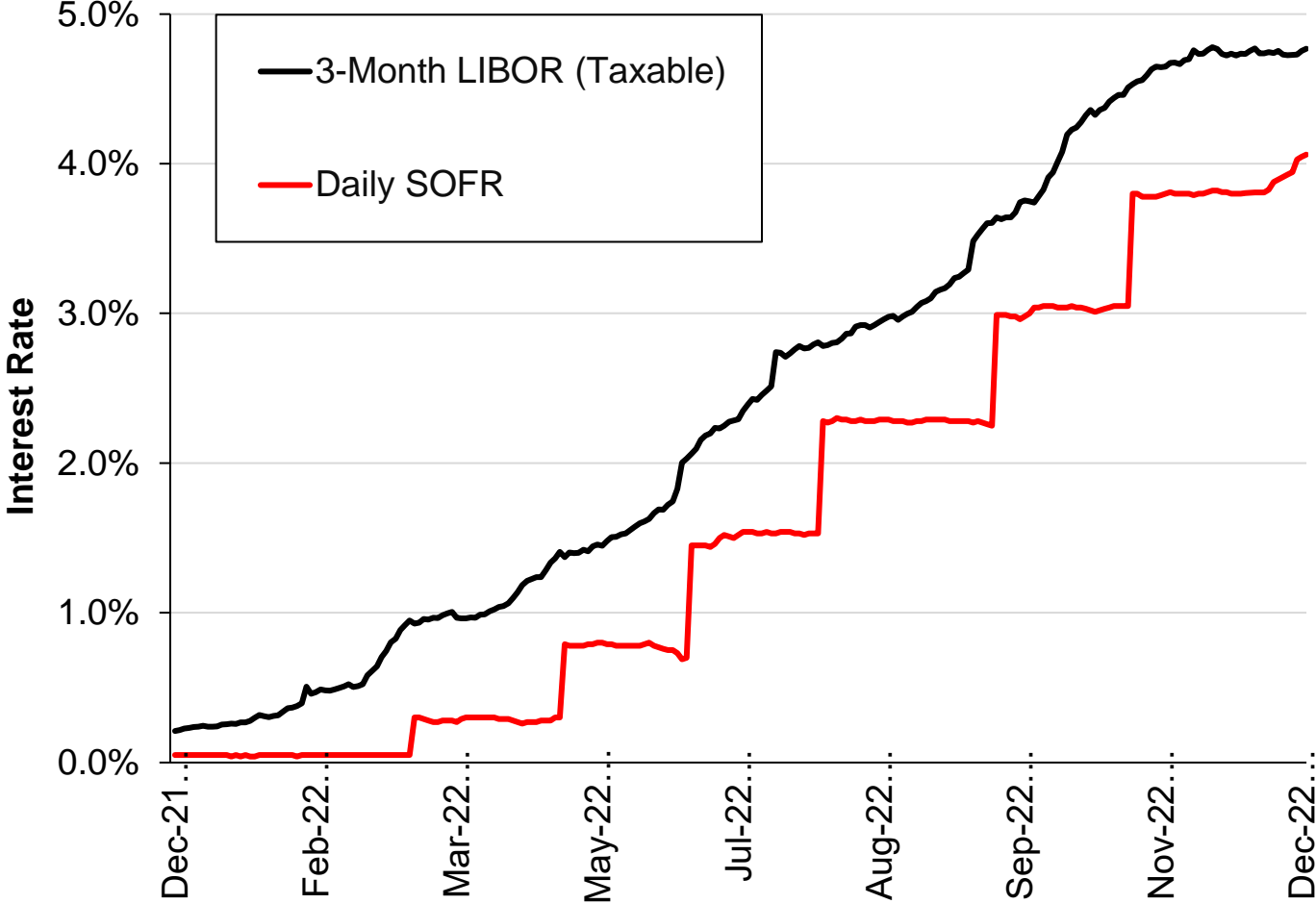
BOND BUYER GO BOND YIELD INDEX

- 10-year history of higher rated (“AA+”) General Obligation debt (20-year term) yield averaged 3.04% and is currently at 3.35% (as of 1/12/23).



VARIABLE INTEREST RATES (TAXABLE)

- Taxable 3-Month LIBOR interest rates paid by the City averaged 4.51% in Q2. The Taxable 3-Month LIBOR and Daily SOFR interest rates are currently 4.81% and 4.31% respectively (as of 1/10/23).



GENERAL OBLIGATION CREDIT RATINGS

- The City's GO Ratings are higher than the State of California's ratings and analogous to Santa Clara County's ratings, which is to be expected given the extent of the tax base and other credit fundamentals that the City and the County share:

Entity	Moody's	S&P	Fitch
CITY OF SAN JOSÉ	Aa1	AA+	AAA
STATE OF CALIFORNIA	Aa2	AA-	AA
SANTA CLARA COUNTY	N/A	AAA	AA+

[1] Moody's does not currently rate Santa Clara County's General Obligation Bonds but maintains an Issuer rating of Aa1.



GENERAL CREDIT RATINGS

CITY OF SAN JOSÉ

- The City of San José continues to maintain very high credit ratings.

Type of Rating	Moody's	S&P	Fitch	KBRA (Kroll)
ISSUER RATING	Aa1 (stable)	AA+ (stable)	AA+ (stable)	N/A
GENERAL OBLIGATION BONDS	Aa1 (stable)	AA+ (stable)	AAA (stable)	N/A
LEASE REVENUE BONDS (ESSENTIAL ASSETS)	Aa2 (stable)	AA (stable)	AA (stable)	N/A
LEASE REVENUE BONDS (LESS ESSENTIAL ASSETS)	Aa3 ^[1] (stable)	AA (stable)	AA- (stable)	N/A

[1] Moody's assigns a rating of Aa3 to CSJFA 2020B and 2022A bonds which the rating agency considers less essential assets.



OTHER CITY CREDIT RATINGS

TYPE OF RATING	MOODY'S	S&P	FITCH	KBRA (KROLL)
SAN JOSÉ AIRPORT BONDS	A2 (stable)	A (stable)	A (stable)	N/A
SARA SENIOR TAX ALLOCATION BONDS	N/A	AA (stable)	AA (stable)	N/A
SARA SUBORDINATE TAX ALLOCATION BONDS	N/A	AA- (stable)	AA- (stable)	N/A
WASTEWATER REVENUE BONDS	N/A ^[1]	AAA (stable)	AAA ^[2] (stable)	AAA (stable)

[1] Moody's does not rate CSJFA Wastewater Revenue Bonds.

[2] KBRA (Kroll) has assigned a rating to the CSJFA Wastewater Revenue Bonds exclusively..



SECOND QUARTER INVESTMENT MANAGEMENT REPORT FOR FISCAL YEAR 2022-2023



INVESTMENT POLICY

(COUNCIL POLICY I-12)

- Investments meet the requirements of the City's Investment Policy and conform with California Government Code section 53601
- Authorized investments are only highly-rated fixed income securities
- Investment Policy is reviewed annually and was last adopted by resolution of the City Council on March 15, 2022
 - Proposed policy changes included on February 16, 2023 PSFSS Committee Agenda
 - City Council approval anticipated on March 21, 2023
- Investment Program is audited semi-annually for compliance purposes



INVESTMENT OBJECTIVES & REPORTING

- Manage investments to meet the City's Investment Policy objectives:
 - Safety
 - Liquidity
 - Yield
- Quarterly reports are available to the public
 - On-line
 - In PSFSS Committee agenda packets
 - In City Council agenda packets (for acceptance)



SOCIALLY RESPONSIBLE INVESTMENT GOALS

- Articulated in Section 22 of the Investment Policy
- Support community well-being through:
 - safe and environmentally sound practices
 - fair labor practices
- Support equality of rights
- Serve all members of the local community
- Promote community economic development



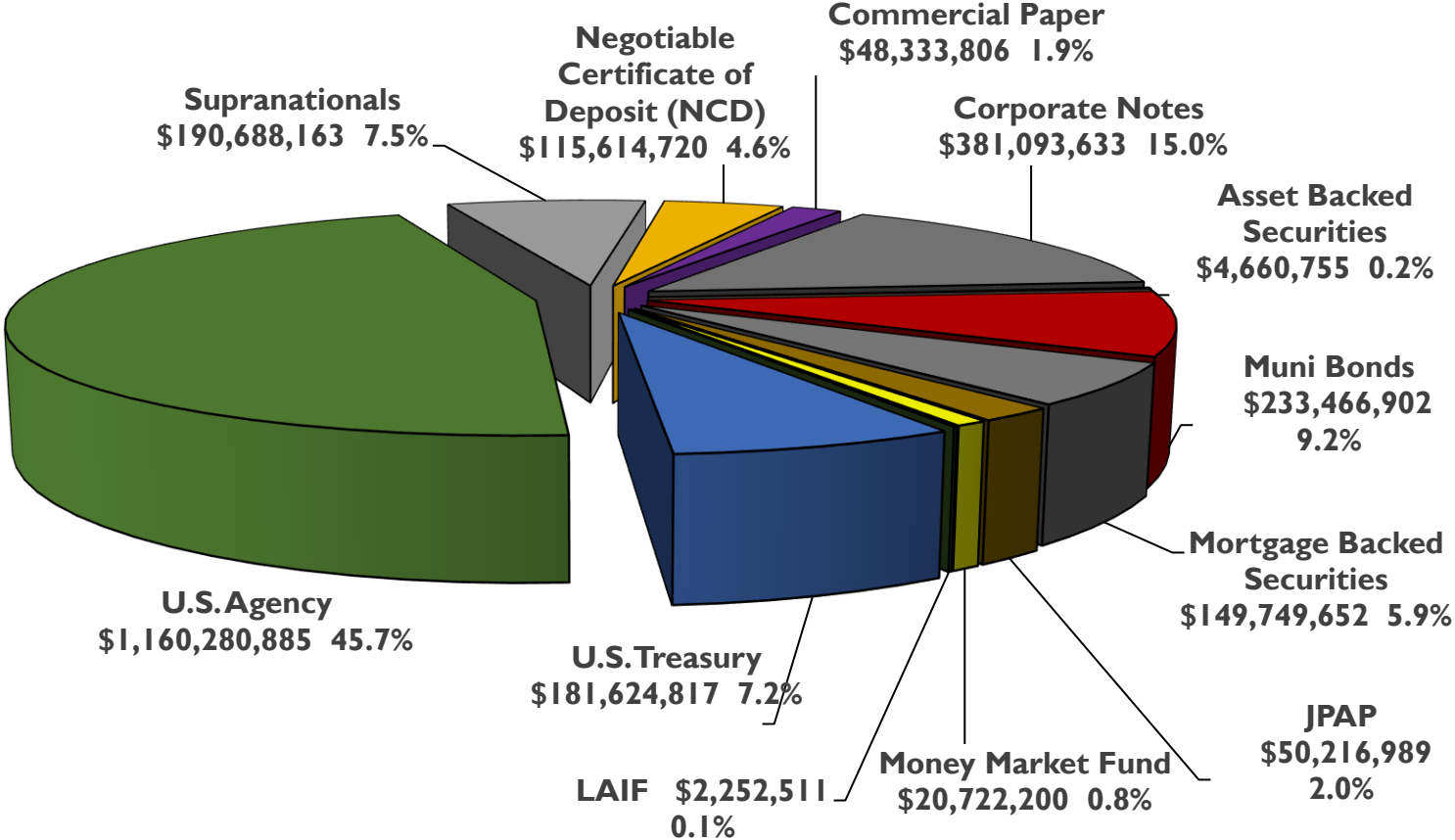
PORTFOLIO PERFORMANCE SUMMARY

Size of Total Portfolio	\$2,538,705,032
Earned Interest Yield	2.233%
Weighted Average Maturity	606 days
Fiscal Year-to-Date Net Income Recognized	\$24,529,648
Exceptions to the City Investment Policy this Quarter	None



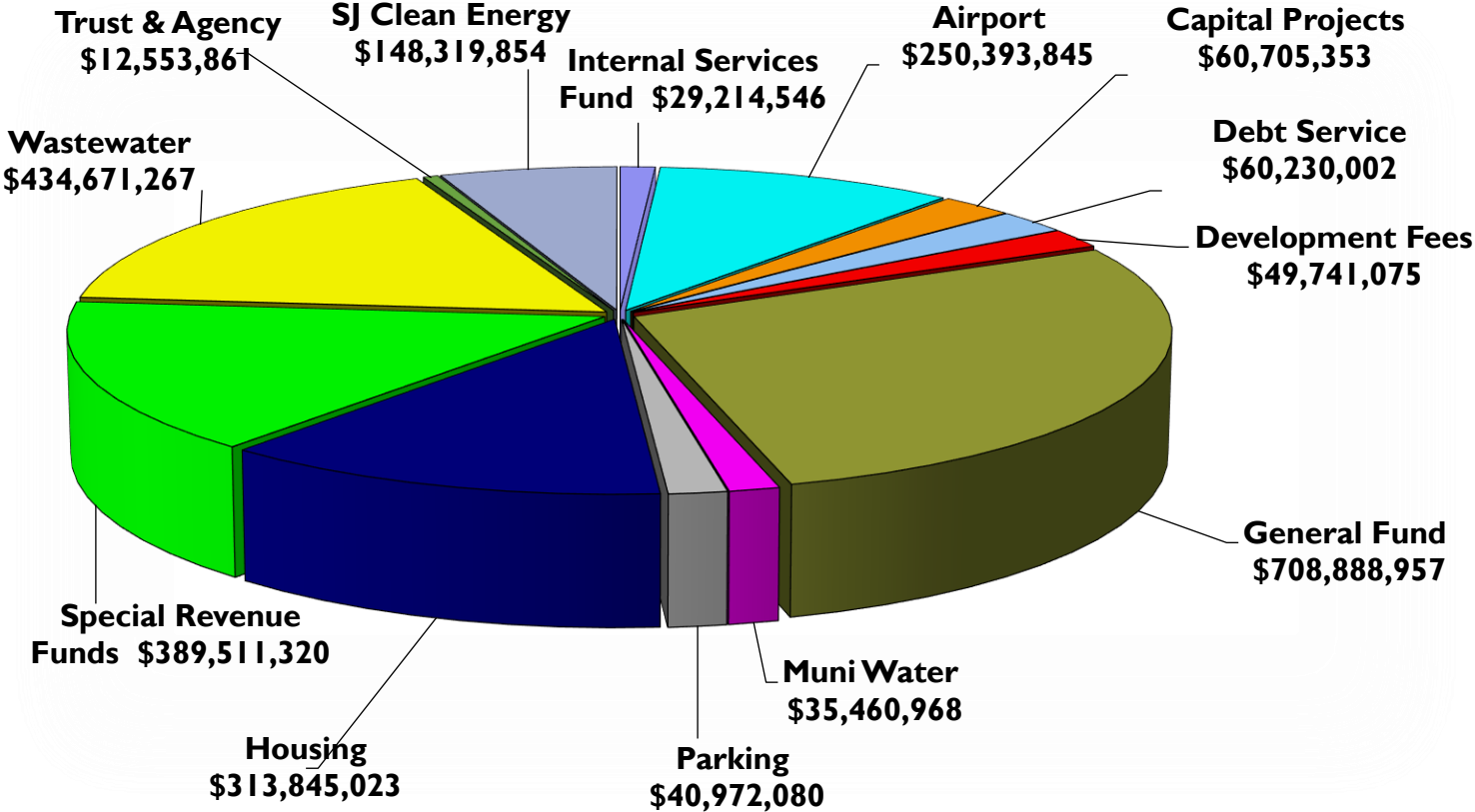
PORTFOLIO INVESTMENTS

Total Investment Portfolio
\$2,538,705,032



INVESTMENTS BY FUND

The \$708.9 million in the General Fund presented includes \$613,707,115 of General Fund monies, as well as \$95,181,842 in other, separately tracked general funds, such as the Emergency Reserve Fund, the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the American Rescue Plan Act (ARPA) of 2021 and other smaller funds and reserves.



GENERAL FUND BALANCE

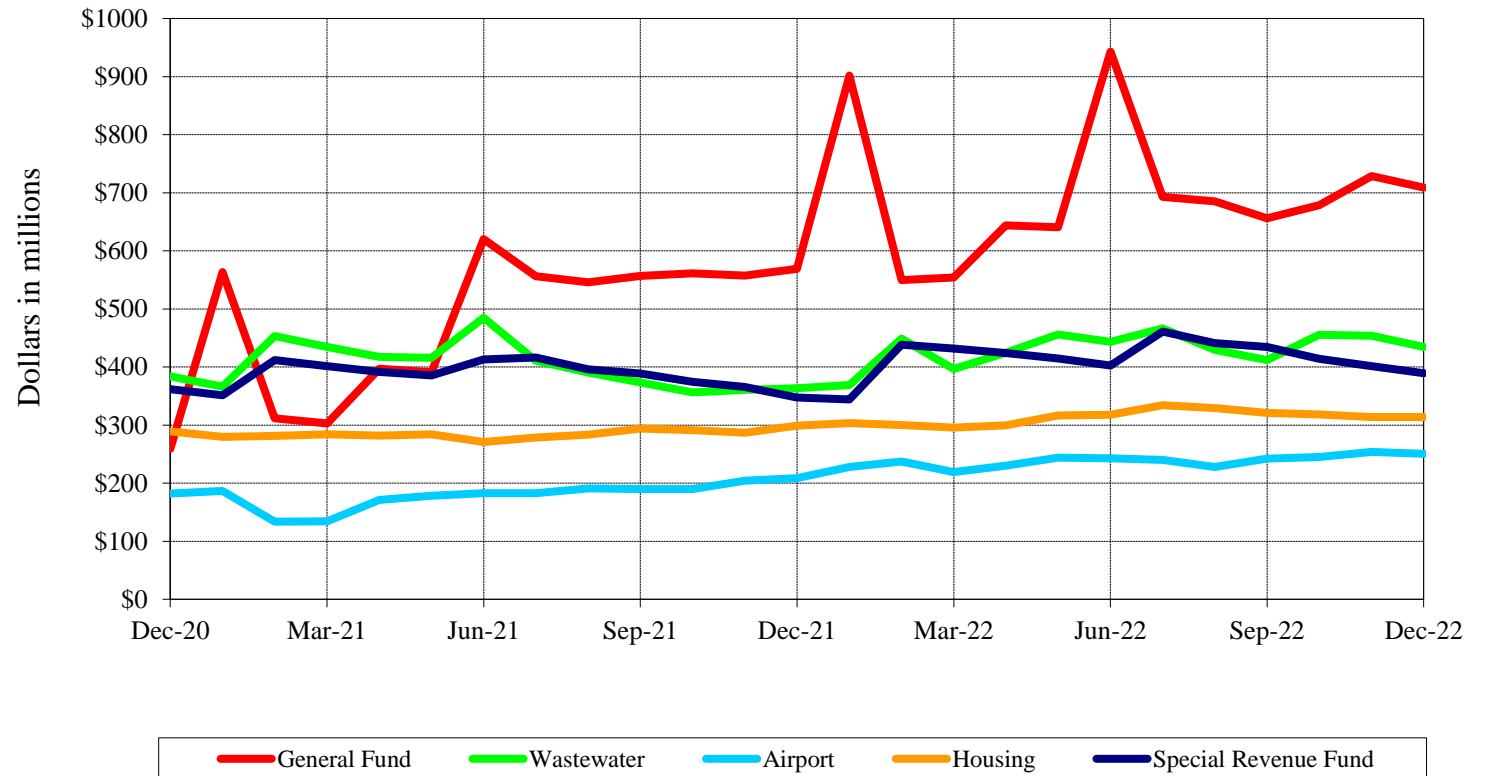
- General Fund balance increased by \$52.8 million during the quarter, with the receipt of property tax advances, and ended with a balance of \$708.9 million as of December 31, 2022
 - General Fund balance usually peaks during the months of January and June, when the bulk of property taxes are received, declines in the summer when the City implements retirement prefunding, and declines throughout the rest of the year due to debt service payments and operational expenditures
- Projected investment maturities, cash and revenues are sufficient to cover anticipated expenditures for the next six months



COMPARISON OF CASH BALANCES

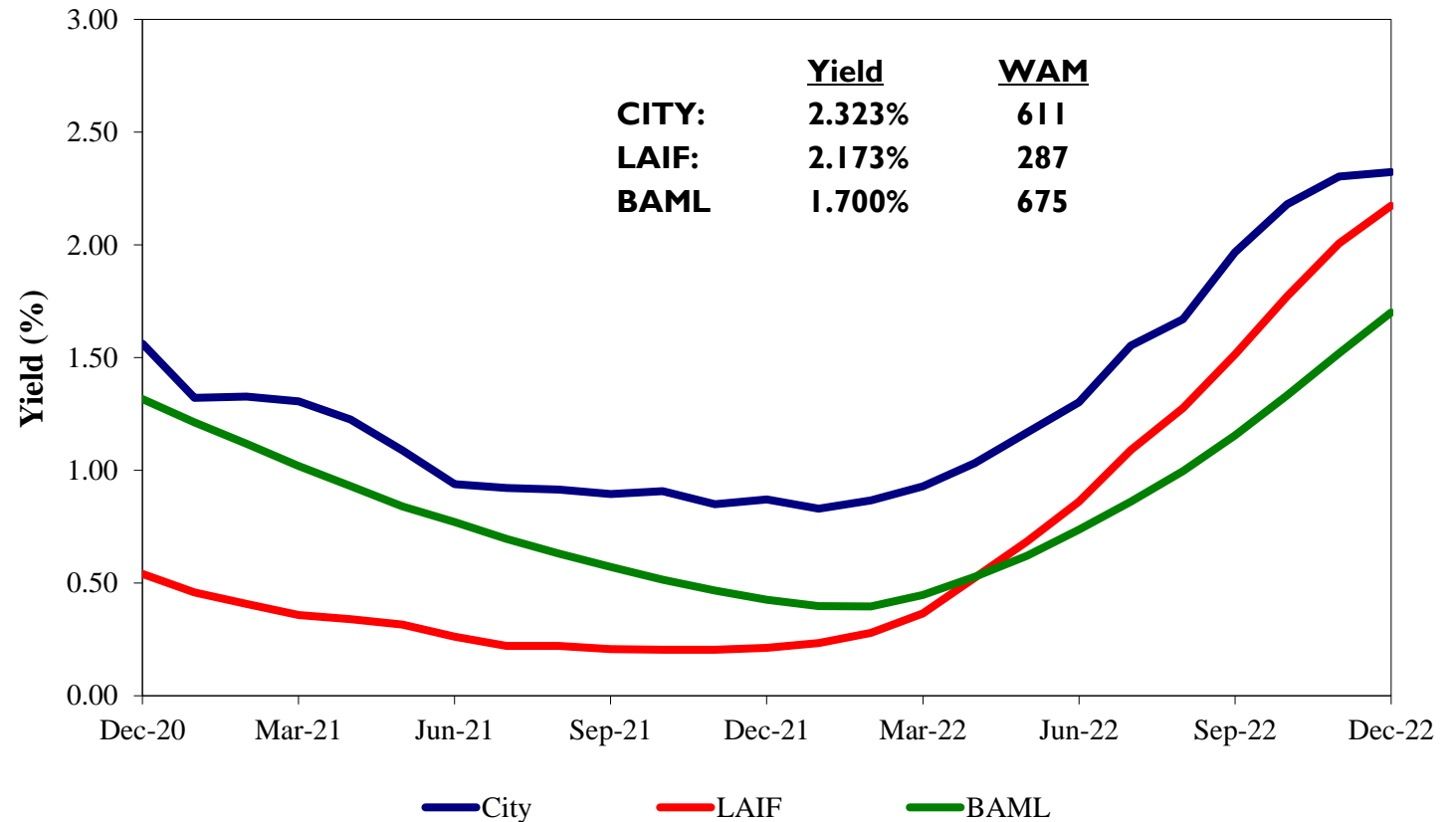
(BY SELECT FUNDS)

The following graph compares monthly balances of the five largest City funds as reported by FMS.



BENCHMARK COMPARISONS

- City refers to City's Fund 3 Portfolio, and the yield data are month-end weighted average yields.
- LAIF refers to the State of CA Local Agency Investment Fund and yield data are average monthly effective yields.
- BAML refers to Bank of America Merrill Lynch 1-3 Year AAA-A US Corporate & Government Index and yield data are rolling 2-year effective yield.



INVESTMENT STRATEGY

- Continue matching known expenditures with suitable investments within the 24-month horizon
- Extend a portion of the portfolio beyond two-year term, when appropriate, to provide income and structure to the portfolio
- Maintain the diversification of the portfolio
- Focus on core objectives of safety, liquidity, and yield



SECOND QUARTER REVENUE MANAGEMENT REPORT FOR FISCAL YEAR 2022-2023



REVENUE MANAGEMENT PROGRAMS

- The Revenue Management Program focuses on collecting all outstanding receivables, with an emphasis on reducing delinquent accounts and enhancing revenue compliance, through four primary collection programs:
 - Accounts Receivable
 - Business Tax
 - Compliance and Monitoring
 - Utility Billing
- Revenue Management also is implementing an Accounts Receivable Amnesty Program to encourage eligible debtors to pay their principal balances
- Efforts may span several reporting periods, and actual collections are reported as funds received by the City.



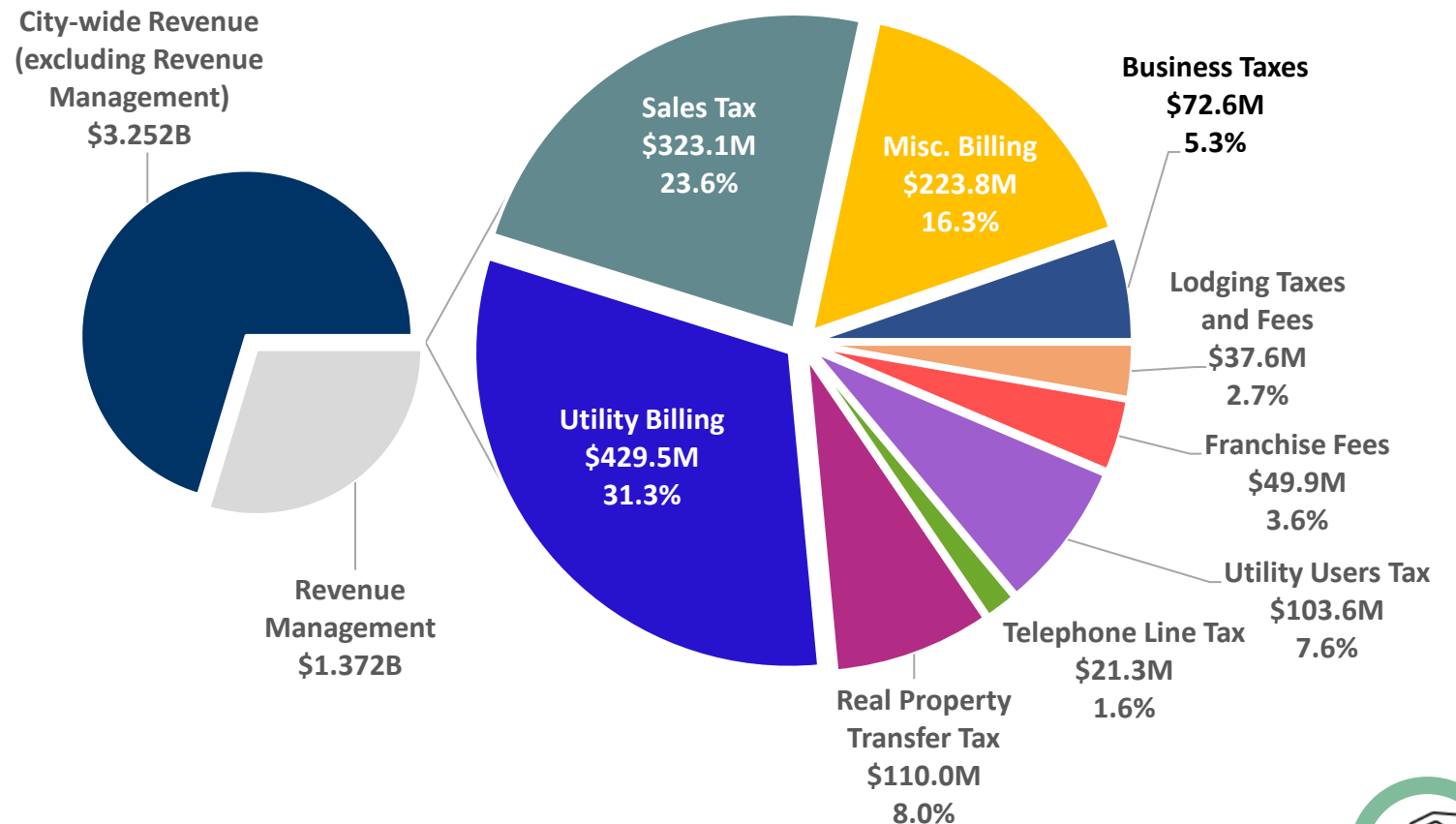
REVENUE MANAGEMENT PORTFOLIO

FY 2021-22 REVENUE (\$ IN MILLIONS)

Total Revenue: \$4.624B

Source: 2021-22 City Manager's
Budget Office Annual Report

(Graph is updated annually)

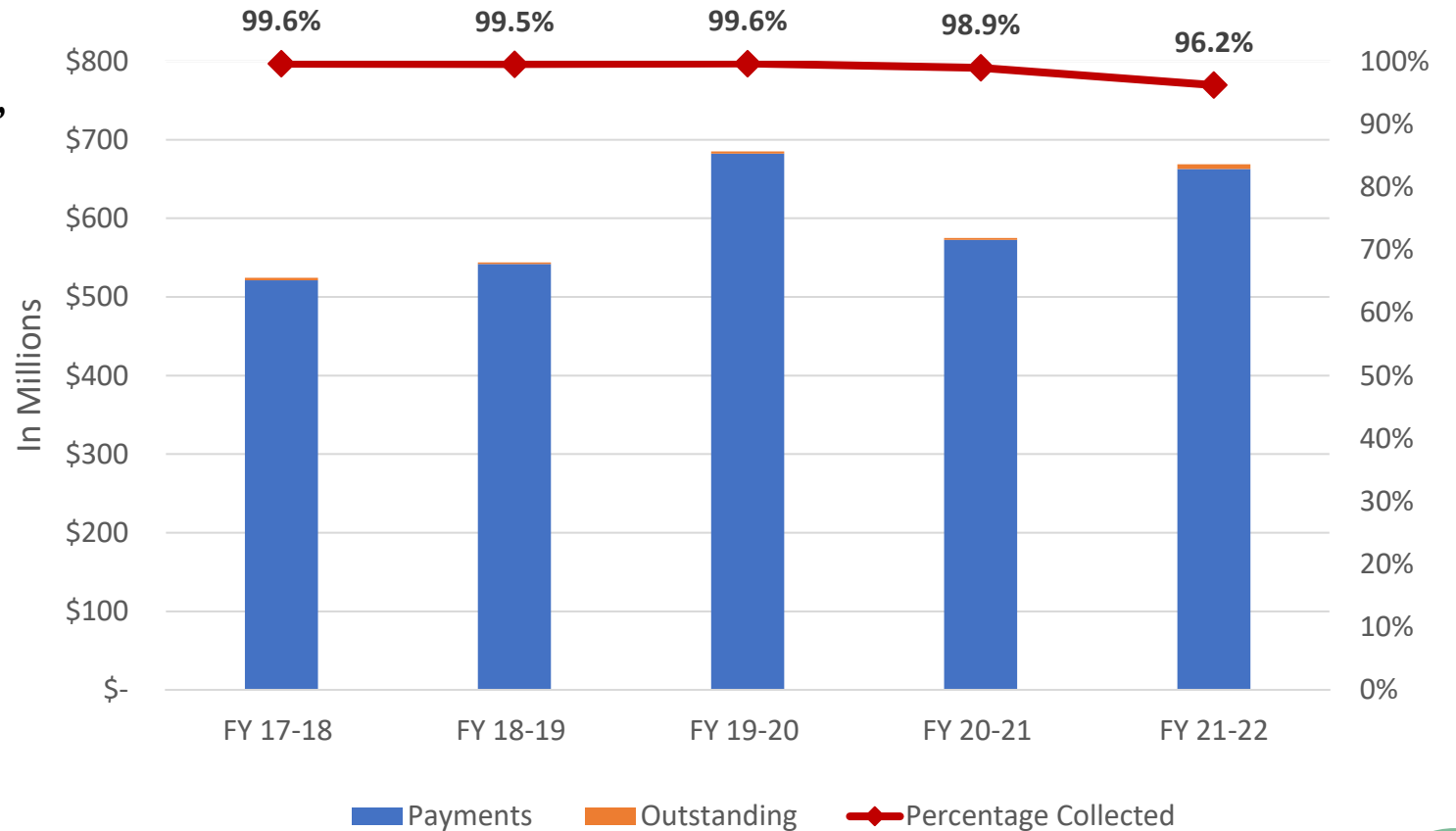


INVOICING AND PAYMENTS

FIVE-YEAR HISTORY (FY 2017-18 TO FY 2021-22)

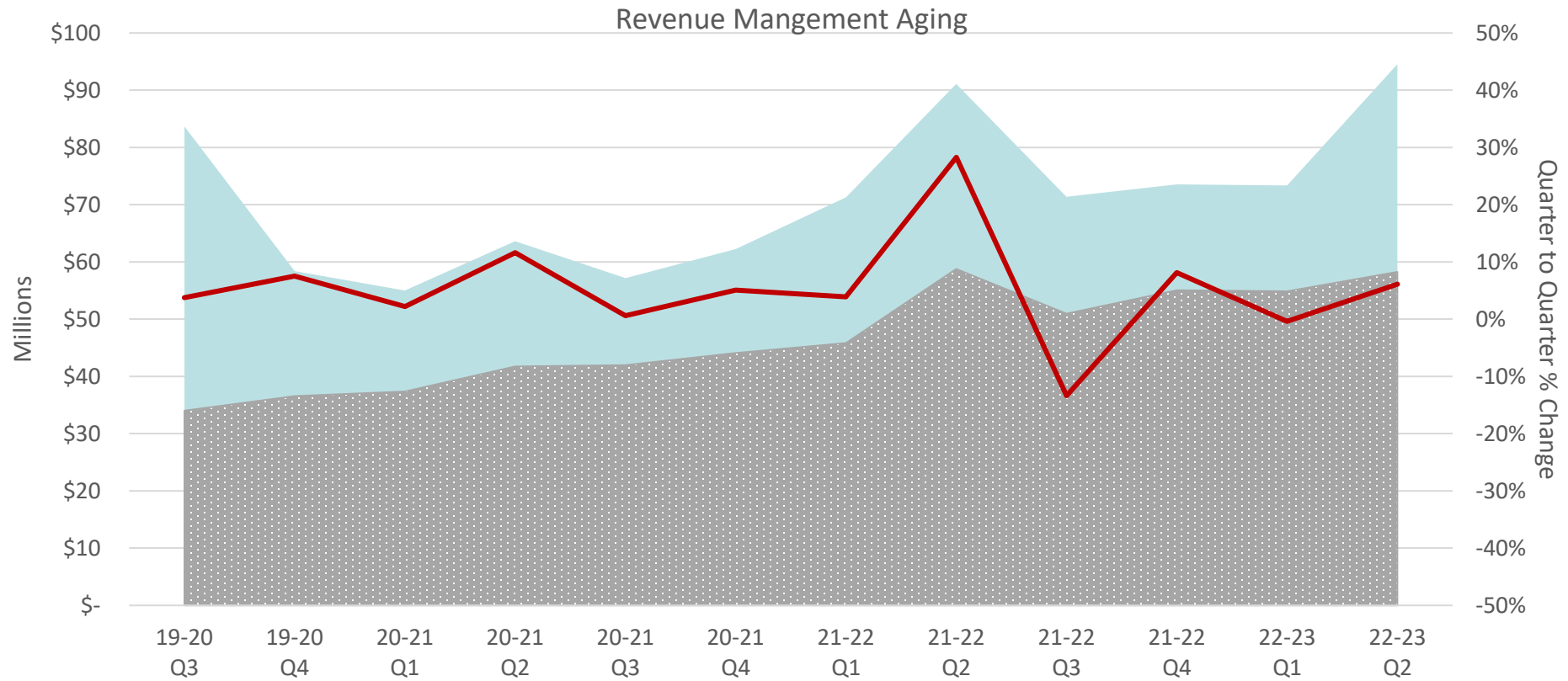
Includes invoices billed through the Business Tax System, the centralized Accounts Receivable system (RevQ), and the Utility Billing System.

(Graph is updated annually)



OUTSTANDING RECEIVABLES

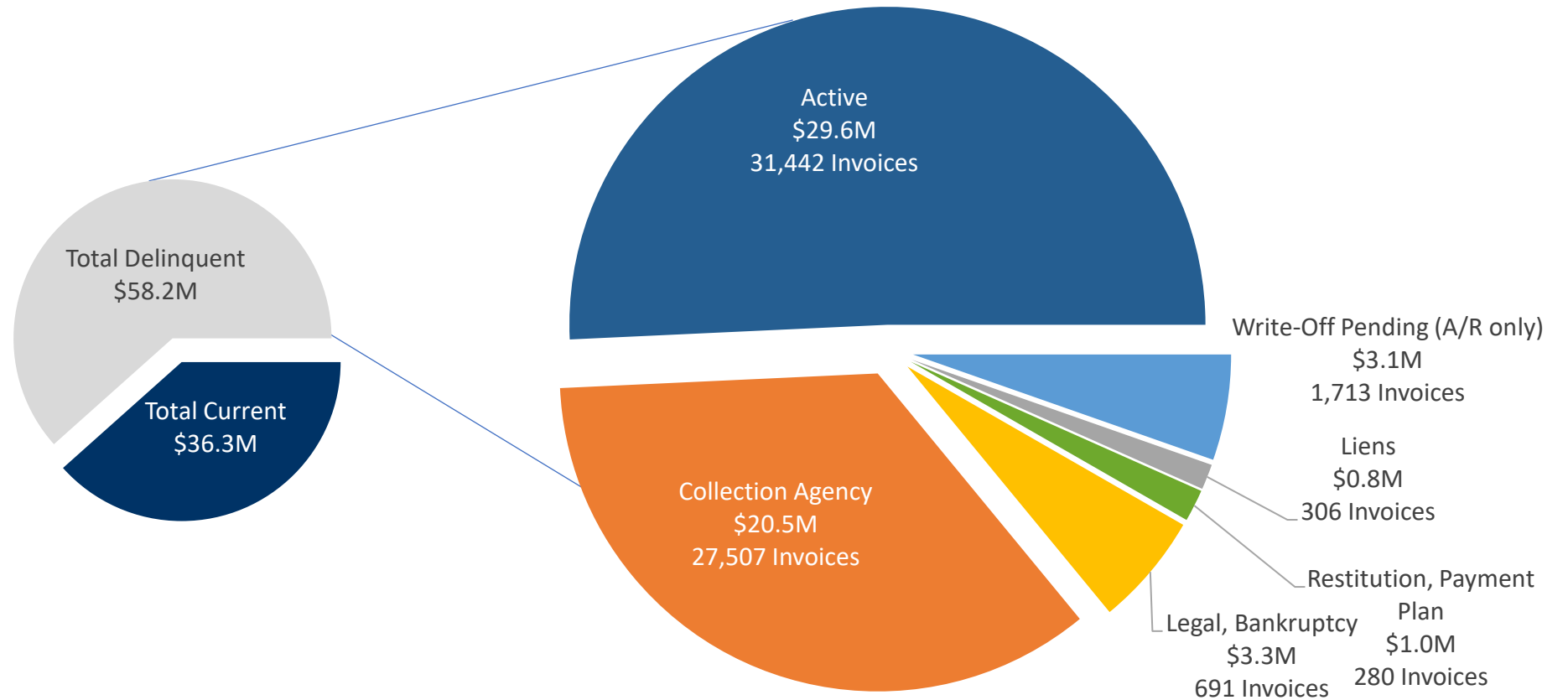
THREE-YEAR HISTORY (Q3 FY 2019-20 To Q2 FY 2022-23)



FY 2022-23 Q2 DELINQUENT RECEIVABLES

COLLECTION STATUS SUMMARY (\$ IN MILLIONS)

Revenue Management



As of December 31, 2022

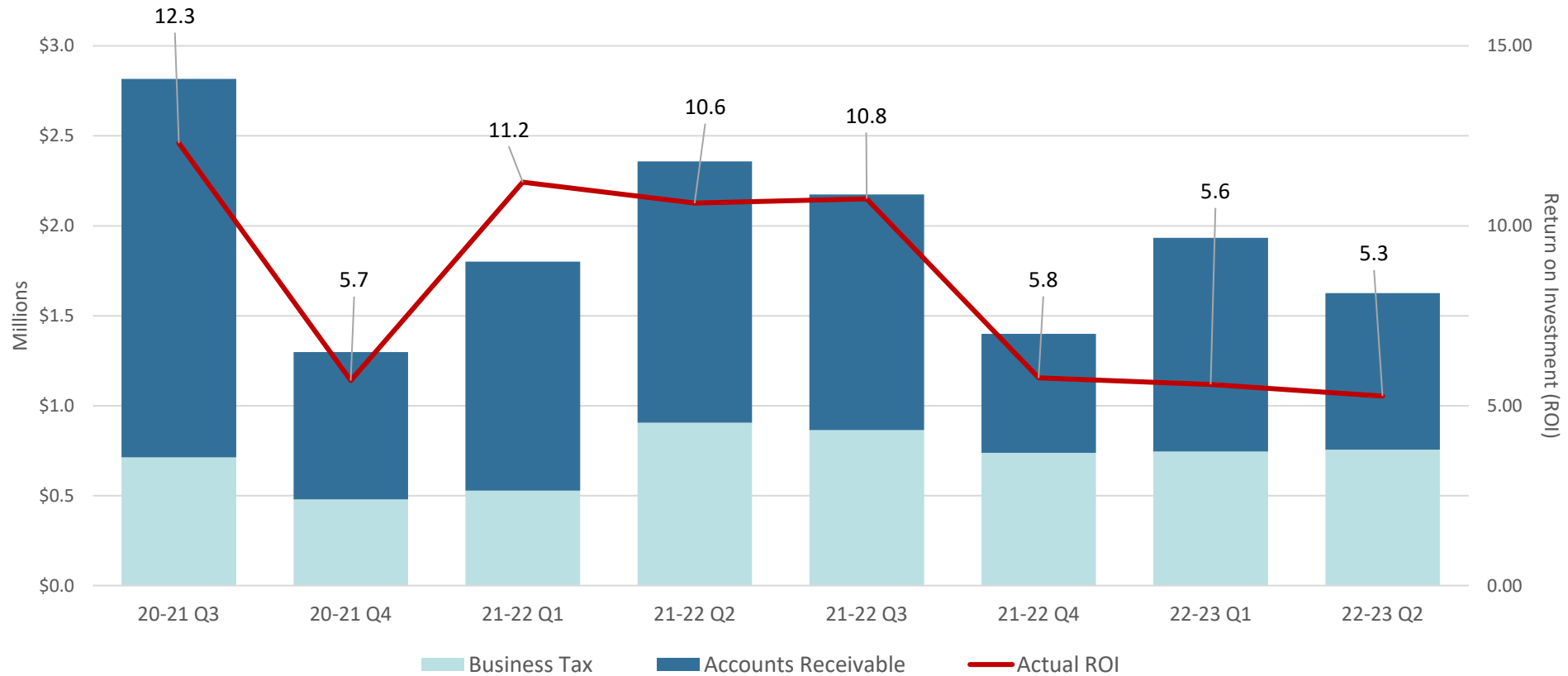
*Rounded



COLLECTIONS & RETURN ON INVESTMENT

REVENUE MANAGEMENT COLLECTIONS

(Q3 FY 2020-21 TO Q2 FY 2022-23)



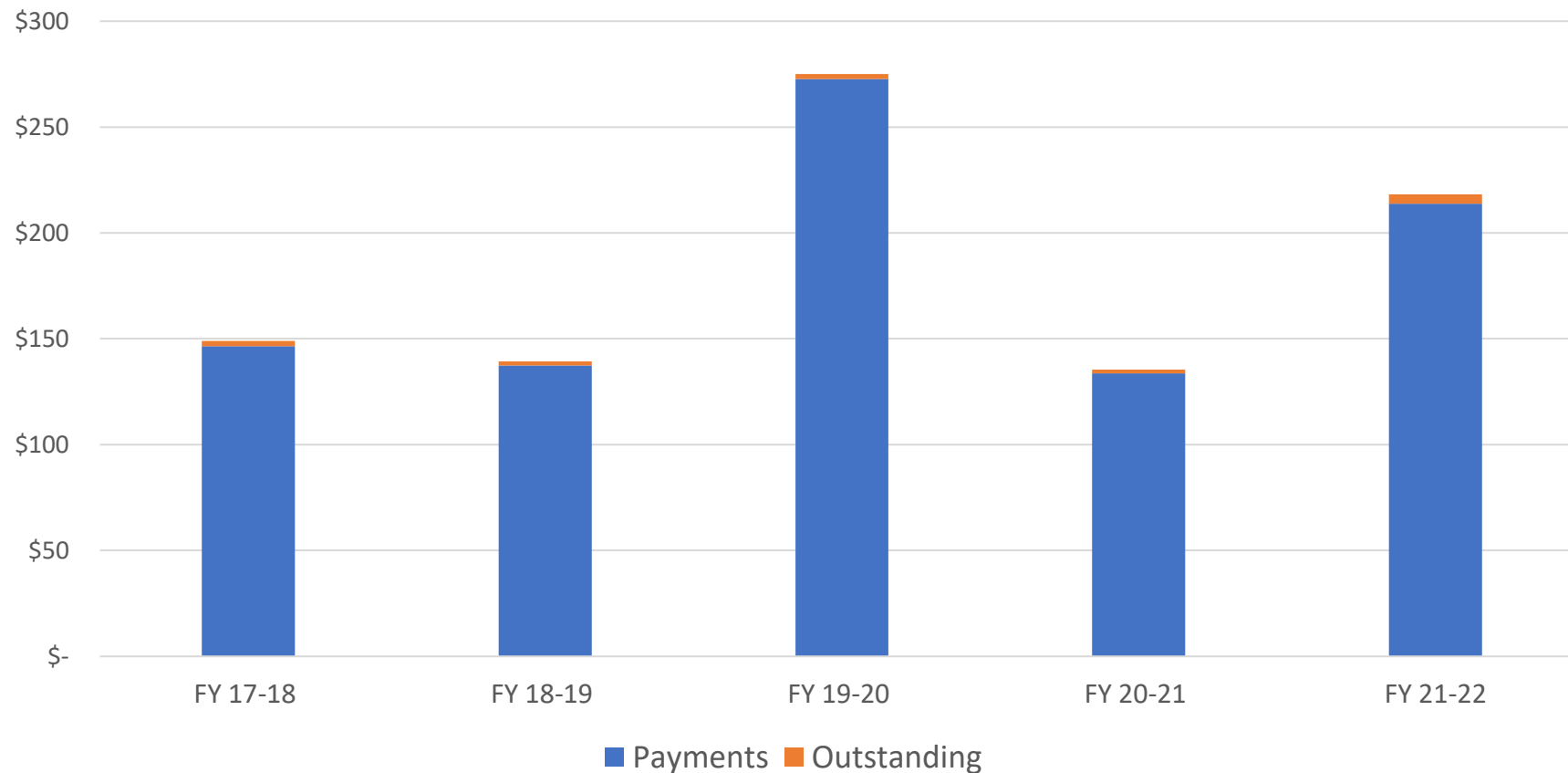
COLLECTION AND WRITE-OFF PROCESS

- Delinquency Notifications Sent to Debtor
 - 30 Day Notice, 60 Day Notice, Final Notice
- Collection Agency Referral Analysis
 - Cost-benefit analysis of staff time vs. receivable amount
 - City's ability to collect through alternative means
 - Type of service billed or receivable amount
- Analysis for Write-Off
 - Collection efforts exhausted
 - Debtor has no assets, filed bankruptcy, expiration of statute, deceased, incarcerated, or “skipped”



ACCOUNTS RECEIVABLE INVOICING & PAYMENTS

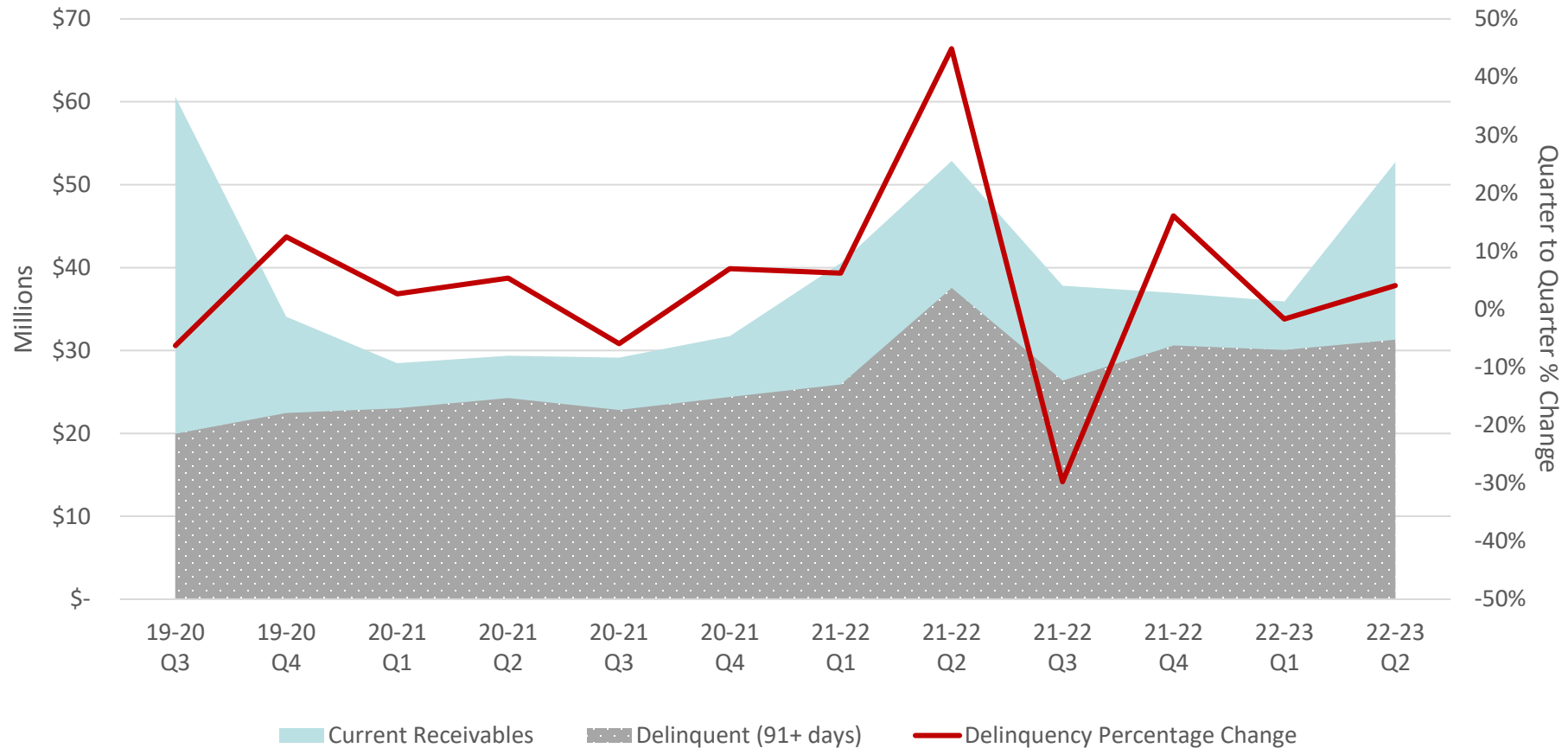
FIVE-YEAR HISTORY (FY 2017-18 TO FY 2021-22)



OUTSTANDING RECEIVABLES

ACCOUNTS RECEIVABLE

THREE-YEAR HISTORY (Q3 FY 2019-20 To Q2 FY 2022-23)

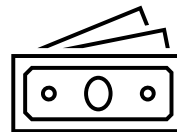


SECOND QUARTER PURCHASING AND RISK MANAGEMENT REPORT FOR FISCAL YEAR 2022-2023



PURCHASING PROGRAM

The Purchasing Division of the Finance Department is responsible for the centralized procurement of equipment, supplies, materials, Information Technology (IT), and non-consulting services, pursuant to the City of San José Municipal Code Title 4, Chapter 4.12.



PURCHASING TRANSACTIONS COMPLETED

SECOND QUARTER FY2022-23

PROCUREMENT TYPE	SECOND QUARTER TRANSACTIONS	FISCAL YEAR TO DATE
Request for Quotes Awarded	13	25
Request for Bids Awarded	13	21
Request for Information Completed	1	4
Request for Proposals Completed	0	1
Purchase Orders and Purchase Order Adjustments Issued	405	1,186
New Agreements Negotiated and Executed	3	9
Amendments, Change Orders, Service Orders, Options Executed	34	63
Council Memoranda Issued	12	24
Purchase Order & Contract Dollars Procured	\$61,077,861	\$244,388,798



PROCUREMENT IMPROVEMENT UPDATE

- Procurement Improvement is a Strategic Support initiative under the City Roadmap
- Staff presenting status report, proposed Municipal Code changes today
 - Item (d) 4 CC 23-022, *Amendments to Title 4 of the Municipal Code Related to Procurement of Goods and Services Status Report*
- Staff continues review and consideration of other recommendations from Procurement Improvement Study



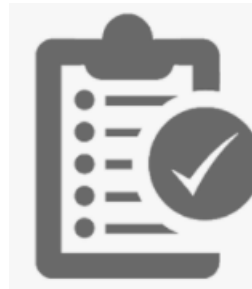
DISPARITY STUDY UPDATE

- A Citywide Disparity Study is underway to evaluate any need for new procurement policies to facilitate participation of diverse business enterprises in City contracting.
- Finance-Purchasing, in collaboration with the City Manager's Office of Communications, Racial Equity and Economic Development & Cultural Affairs, is working with MGT of America Consulting, LLC to deliver this scope of work.
- Completed Activities this Quarter
 - City Disparity Study multi-lingual website went live on October 25, 2022
<https://www.sanjoseca.gov/your-government/departments-offices/finance/disparity-study>
 - First Business Engagement Meeting held November 14, 2022
- Upcoming Activities for Next Quarter



RISK MANAGEMENT PROGRAM

The Division is responsible for the procurement and oversight of the City's property and casualty insurance programs and providing contractual risk management services, property subrogation claims reporting and other key services to City Departments



RISK MANAGEMENT TRANSACTIONS COMPLETED

SECOND QUARTER FY2022-23

TRANSACTION TYPE	SECOND QUARTER TRANSACTIONS	FISCAL YEAR TO DATE
Request for Contract Insurance Specifications	245	504
Request for Insurance Compliance Review	124	256
Request for Letters of Self-Insurance	14	40
Subrogation Dollars Billed to Responsible Third Parties	\$249,761	\$539,046
Council and Committee Memorandums Issued	0	3

